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C O N F I D E N T I A L SECTION 01 OF 02 ABUJA 002866

SIPDIS

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TAGS: EFIN ECON NI
SUBJECT: LIFE AFTER THE SBA -- IMF SUGGESTS VOLUNTARY POLICY FRAMEWORK FOR NIGERIA

REF: ABUJA 2859

Classified by CDA Andrews. Reasons 1.5 (d).

¶1. (U) Summary: Visiting IMF team leader Hiroyuki Hino told diplomats November 8 that the SBA had expired because the GON had failed to reach critical benchmarks. In place of a formal program, the IMF and GON were negotiating a voluntary policy framework for the six-month period of October 2001-March 2002. The framework would be reviewed by the IMF Board, and if successful, Nigeria could enter into a formal arrangement) another SBA or a Poverty Reduction Growth Fund (PRGF). According to Hino, the framework would include four goals for the initial three-month period: 1) fiscal restraint; 2) monetary restraint; 3) a market-based exchange rate; and 4) publication of audits on government expenditures in 2000 and the first half of 2001. By failing to fulfill the SBA, Nigeria no longer met Paris Club terms and would have to renegotiate $300 million in August) December 2001 arrears with its creditors. End Summary.

¶2. (U) During a November 8 meeting with diplomats, Hino reviewed Nigeria's performance under the old SBA. While Nigeria had met many of the targets, he said, the GON had missed important ones. In fact, performance in key areas had worsened. Inflation had climbed from zero in December 1999, to 14.1 percent in December 2000, to 20.1 percent in July ¶2001. Monetary growth hit 62 per cent in June 2001 (though it has since stabilized) and the spread between official and parallel exchange rates grew from five per cent to 20 per cent. Economic performance improved significantly in September but not enough for IMF management to justify extending or rolling over the SBA, as some members had suggested.

¶3. (U) The proposed policy framework is similar to a Staff Monitored Program (SMP), but the Board would review it, not the staff (as with an SMP). Board review is an important, positive distinction for the GON because it wants to avoid perceptions that the SBA had failed. After the IMF approves the policy framework, the GON would be required to publish the framework and adopt it as official policy.

The 2002 Budget: Restrained Enough?

¶4. (C) The 2002 budget (reported reftel) will be a key factor in whether the IMF approves the policy framework. Hino reported that the new budget showed considerable restraint through reduced capital projects, allowed for due process of government procurements and used realistic revenue assumptions. The GON argued that, in an election year, the National Assembly would not accept a budget leaner than the current draft plan. The proposal includes rapid growth in the wage bill and an underestimation of debt burden. Notwithstanding the GON's argument, the IMF team believed the draft budget was too large to restore economic stability. Hino said the IMF would monitor the legislative process carefully as the budget courses through the National Assembly, but he declined to predict a response: "Washington (IMF) may find it unacceptable, or they may find it great given the political climate."

Harmonizing Exchange Rates May Be Technically Easy But...

¶5. (C) Hino suggested that Nigeria could quickly reduce the spread between the official and parallel exchange rates and begin operating with a market-based exchange rate. The GON recently made some progress, he said; beginning November 1, the Central Bank allowed banks to purchase foreign exchange from non-CBN sources outside the previous band of 0.5 percent deviation from the official rate. Taking steps to dry up

liquidity could help to reduce the gap between the two rates, Hino added. Although harmonizing parallel and official rates may be easy technically, the move has significant political costs. President Obasanjo's policy heretofore has been to protect the Naira's exchange rate; changing course becomes progressively more difficult the closer Nigeria moves to elections.

Progress toward Transparency

¶6. (C) Hino praised President Obasanjo's pledge to publish audits on the quality of government expenditures in 2000 and the first half of 2001. Almost complete, the audits sharply criticize ministries and specific projects, he added. Hino reported that Obasanjo had overcome considerable political pressure to publish only a general summary of the audits and had pledged to publish the full, detailed reports. Hino also believed that the due process procedures for capital projects in the 2002 budget would improve the quality of projects and enhance transparency.

Paris Club Debt

¶7. (U) For Nigeria to retain good relations with the Paris Club, the GON will need to pay $1 billion by December 2001 in addition to arrears of roughly $300 million for the August through December period. However, the GON could still negotiate repayment with creditors since the Paris Club extended the deadline on bilateral negotiations until end-December.

A Difficult Row to Hoe

¶8. (C) Acknowledging Nigeria's positive accomplishments, Hino highlighted the President's restraint in 2001 spending, stabilization of growth of the money supply and progress toward transparency. However, Hino was not sanguine Nigeria could meet the terms of a new policy framework. Beyond the obvious hurdles of trying to limit spending during Nigeria's extremely elongated election season and overcoming President Obansanjo,s promise to defend the Naira, Hino appeared frustrated by the performance of the Nigerian bureaucracy. Bureaucratic lethargy, he said, likely would prevent Nigeria from having a Poverty Reduction Strategy Paper (PRSP) by June ¶2002. The PRSP is required before a medium-term PRGF can be implemented. Any delay with the PRSP could disrupt the current six-month target date for completing the informal policy framework and establishing a formal program.

¶9. (C) Improvement in technical competence of GON staff had been less noticeable than in many other countries, according to Hino, who suggested that donors review progress on the Economic Management Capacity Building Program. Compounding shortcomings within the Nigerian bureaucracy, the IMF Mission in Nigeria also had suffered because of a lack of staff on the ground (the Resident Representative and Deputy departed this summer). Distilling his analysis of the IMF - GON relationship to one sentence, Hino stated: "The IMF has gone a long way to meet the needs of Nigeria, but Nigeria is going to have to do much of this for itself."
Andrews